

## DECISION MEMORANDUM

**TO:** COMMISSIONER KJELLANDER  
COMMISSIONER SMITH  
COMMISSIONER REDFORD  
COMMISSION SECRETARY  
COMMISSION STAFF

**FROM:** DON HOWELL

**DATE:** SEPTEMBER 7, 2007

**SUBJECT:** AVISTA'S ANNUAL POWER COST ADJUSTMENT (PCA)  
APPLICATION, CASE NO. AVU-E-07-07

On July 31, 2007, Avista Corporation dba Avista Utilities filed its annual Power Cost Adjustment (PCA) Application. In its Application, Avista calculates that its annual power costs increased approximately \$4.6 million more than the existing PCA surcharge of about \$5.0 million. The Company estimates that this results in an overall PCA rate increase of 2.22%.

On August 10, 2007, the Commission issued a Notice of Application and a Notice of Modified Procedure. The Commission requested comments be filed no later than September 7, 2007. Comments were filed by the Commission Staff and six customers.

### BACKGROUND

#### *A. Recent PCA Changes*

Since 1989 the PCA mechanism has permitted Avista to adjust its PCA rates upward or downward to reflect the Company's annual "power supply costs." Because of its reliance on hydroelectric and natural gas-fired generation, Avista's actual costs of providing electricity (its power supply costs) varies from year-to-year depending on changes in streamflows, natural gas prices, and the market price of power. The annual PCA surcharge or credit is combined with the Company's "base rates" to produce a customer's overall energy rate. The PCA does not affect Avista's earnings or profits.

In June 2007, the Commission approved two major changes to Avista's PCA methodology. First, the Commission changed Avista's PCA from a "trigger and cap" mechanism to a single, annual PCA rate adjustment. Order No. 30361 at 6. Under the trigger-and-cap mechanism, a PCA rate change was not "triggered" until the deferral costs exceeded a

certain threshold, and the rate change was “capped” at 5%. Order No. 28108 at 1. Second, the Commission changed the PCA rate from a uniform “percentage” basis to a uniform “cents per kilowatt hour (kWh)” basis. *Id.* The Commission directed that these two changes be implemented in this docket.

***B. The PCA Application***

During the PCA year (July 1, 2006 through June 30, 2007) the Company reports that its unrecovered deferral balance after the 90/10 split is \$10,573,518. Application at 3. The Company attributed the higher power supply costs to higher natural gas fuel costs and slightly reduced hydro generation. Storro Direct at 2. Consequently, Avista seeks a PCA surcharge of 0.267¢ kWh.

Under the Company’s proposal, the PCA surcharge rate for residential customers will increase from 0.163¢ per kWh to 0.267¢ per kWh, an increase of 0.104¢ per kWh. If approved, the monthly bill for the average residential customer using 1,000 kWh per month would increase by \$1.04. The average monthly bill for a residential customer using 1,000 kWh would increase from \$69.38 to \$70.42, or an increase of approximately 1.5%.

Because the PCA rate is being changed from a percentage basis to a cents-per-kilowatt basis, the percentage increase will vary by customer class. The table below shows the proposed increase in the PCA rates for the major customer classes:

<b>CUSTOMER GROUP (SCHEDULE)</b>	<b>PERCENTAGE CHANGE</b>
Residential (1)	1.53%
General Services (11 & 12)	0.98%
Large General Services (21 & 22)	2.04%
Extra Large General Services (25)	3.86%
Pumping Services (31 & 32)	1.83%
Street and Area Lights (41 - 49)	-0.89%

McKenzie, Exhibit No. RLM-1, Page 1 of 3

The Company’s Application is supported by the testimony of Richard Storro, the Director of Power Supply, and Ronald McKenzie, Manager of Regulatory Accounting. The

Company submitted proposed tariff changes to its Schedule 66 (Temporary Power Cost Adjustment). The Company proposed an effective date of October 1, 2007.

## COMMENTS

### *A. Public Comments*

The Commission received six comments from customers or interested persons. All the public commenters opposed the PCA rate increase. Three commenters were on fixed incomes or retired. Several customers suggested that the Company absorb the PCA rate increase by reducing officer salaries or tightening “their belts like everyone else.”

A commenter from Boise asserted that the PCA mechanism is biased in favor of known energy resources instead of intermittent resources such as wind. He asked why ratepayers should be responsible for price volatility “when they have no say in ways to limit or reduce” the risk of price volatility.

### *B. Staff Comments*

The Staff performed a review and audit of the PCA accounts and concluded that the amounts recorded are correct. The Staff agreed with the Company that the unrecovered deferral balance in the PCA account is \$10,573,518 as of June 30, 2007.

Staff also reviewed the calculation of the interest and found that the amounts included in the Company’s Application to be correct. The Company uses the customer deposit rate on current year deferrals plus 2% on carry-over balances from one year to the next. Consistent with the Commission’s Order No. 30361, the Staff recommended that the additional 2% interest be eliminated effective October 1, 2007. Subsequent PCA calculations should not contain the additional 200 basis points in interest. The Company concurs that this change should become effective October 1, 2007.

The table below shows the individual PCA components and the calculation of the unrecovered deferral balance.

Unrecovered Balance at June 30, 2006	\$ 1,517,103
Net Deferral Activity (July 2006-June 2007)	13,239,763
Amortizations Related to Surcharge Revenues (July 2006-June 2007)	-4,691,623
Interest	501,895
Centralia gain over-refund (recorded in November 2006)	6,380
Unrecovered Balance at June 30, 2007	<u>\$10,573,518</u>

In conclusion, the Staff recommended that the Commission accept the audited deferral balances presented in the Company's filing and approve the proposed PCA rate surcharge of 0.267¢/kWh effective October 1, 2007. Staff further recommends that the Company discontinue the additional 2% interest calculation for carry-over balances effective October 1, 2007.

#### COMMISSION DECISION

Does the Commission accept the audited deferral balances presented in the Company's filing?

Does the Commission adopt the proposed PCA surcharge rate of 0.267¢/kWh effective October 1, 2007?

Does the Commission wish to discontinue the additional 2% interest on annual carry-over balances effective October 1, 2007?

Does the Commission wish to address any of the customer comments or other issues?



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Don Howell

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